EUROPEAN CENTRAL BANK

BANKING SUPERVISION

PRESS RELEASE

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ECB concludes comprehensive assessment for nine banks

- In-depth review carried out over the course of 2015 identifies capital shortfalls at five of the nine banks examined, four of which have already covered the shortfall
- Shortfalls amount to €1.74 billion resulting from CET1 ratios falling below threshold of 5.5% in adverse stress test scenario, after including impact of asset quality review (AQR)
- Total AQR adjustments to asset carrying values of €453 million mainly arise from a 32% increase in provisioning needs
- Adverse scenario projects 6.1 percentage point weighted average decline in CET1 ratio of participating banks
- Initial comprehensive assessment is a requirement for all banks that become or are likely to become subject to direct ECB supervision

ECB Banking Supervision conducted a comprehensive assessment for nine banks from March to November 2015. This followed an exercise in 2014, in which the ECB assessed 130 banks in preparation for assuming direct banking supervision of the largest banking groups within the Single Supervisory Mechanism (SSM).

An initial comprehensive assessment by the ECB is a requirement of all banks that become or are likely to become subject to direct ECB supervision and is similar to the rigorous exercise undertaken for the directly supervised banks last year. Five of the banks participating in this year's exercise had already become subject to direct ECB supervision in 2014, while the remaining four banks will be as of January 2016.

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It should be noted that the comprehensive assessment undertaken for all banks falling under, or likely to fall under, direct ECB supervision is different in nature from exercises carried out as part of on-going direct supervision or those specifically requested from the ECB.

The 2015 exercise consisted of an asset quality review (AQR) and a stress test. It was similar to last year's comprehensive assessment in terms of its scope and depth, given that the AQR and stress test were performed based on the methodologies applied in 2014. It constituted a prudential rather than an accounting exercise and the threshold ratios applied for identifying capital shortfalls were maintained at the same levels as in 2014: a Common Equity Tier 1 (CET1) ratio of 8% for the AQR and the stress test baseline scenario, and a CET1 ratio of 5.5% for the stress test adverse scenario. The CET1 ratio is a key measure of a bank's financial soundness.

The AQR was a point-in-time assessment of the carrying values of banks' assets as at 31 December 2014. It resulted in aggregate adjustments to carrying values of €453 million across all participating banks, largely stemming from the identification of additional non-performing exposures (NPEs) and increases in specific and collective provision levels. This led to net changes in banks' CET1 ratios ranging from 0 to -1.6 percentage points.

The AQR results served as a starting point for the stress test, which projected the evolution of banks' capital positions over three years (2015-2017) under a baseline scenario and an adverse scenario. The adverse scenario projected a weighted average decline of 6.1 percentage points in the CET1 ratio of the participating banks.

No bank fell below the threshold ratio of 8% CET1 after the AQR, while the effect of the combined AQR and stress test resulted in five banks falling below the threshold ratio of 5.5% CET1 in the adverse scenario. The aggregate capital shortfall identified across these five banks is €1.74 billion. This will partly be covered by recent capital increases undertaken since January 2015 and other eligible measures.

As in the 2014 exercise, the banks will be required to address remaining shortfalls in a timely manner by issuing capital instruments or undertaking other eligible measures to restore their capital positions to the required levels. This implies that shortfalls arising from the adverse scenario of the stress test will be expected to be covered within nine months after the publication of the comprehensive assessment results.

The five banks facing shortfalls will have to submit capital plans detailing the relevant measures within two weeks after the publication date. The implementation and monitoring of the relevant actions will be aligned with the annual Supervisory Review and Evaluation Process (SREP) carried out by the Joint Supervisory Teams (JSTs) in charge of supervising the banks concerned.

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Remediation actions will not be limited to closing capital gaps. Banks must also take measures to address qualitative findings of the AQR, such as weaknesses in their systems and processes.

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